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**MICHAEL J. PAHUTSKI**  
Counsel

VIA OVERNIGHT MAIL

**CINERGY®**

August 31, 2004

Ms. Elizabeth O'Donnell  
Executive Director,  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

RECEIVED

SEP - 1 2004

PUBLIC SERVICE  
COMMISSION

Re: Case No. 2004-00253

Dear Ms. O'Donnell:

Enclosed for filing please find an original and seven (7) copies, bound and tabbed, of The Union Light, Heat and Power Company's Responses to Staff's Supplemental Data Requests in the above-captioned case. In addition, I have enclosed an unbound copy and request that you file-stamp and return it to me in the enclosed overnight mail envelope as proof of filing.

Should you have any questions, please do not hesitate to contact me at (513) 287-3075.

Sincerely,



Michael J. Pahtuski

MJP/mak

Enclosures

cc: Elizabeth Blackford  
Assistant Kentucky Attorney General  
Kentucky Attorney General's Office

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SEP - 1 2004

PUBLIC SERVICE  
COMMISSION

**KyPSC Staff's Supplemental Data Requests**

**Case No. 2004-00253**

**Date Received: August 19, 2004**

**Response Due Date: September 1, 2004**

**KyPSC-DR-02-001**

**REQUEST:**

1. Refer to the Response to Item 2 of the Commission Staff's First Data Request dated July 27, 2004.
  - a. Concerning Commission review of the service agreements related to the economic development tariffs – if the Commission does not have an opportunity to review or approve the agreements, explain how it can be assured that they do not contain terms and conditions that could be detrimental to the other customers.
  - b. Would ULH&P agree that, if the service agreements were filed for Commission review and approval, deviations from the requirements of Administrative Case No. 327 could be addressed as part of that process? Explain the response.
  - c. ULH&P has indicated that The Cincinnati Gas & Electric Company (“CG&E”) has had a Brownfield Development Rider (“Rider BR”) for 8 years.
    - i. Does CG&E use service agreements in conjunction with this rider? If yes, provide a representative copy of the service agreement in use by CG&E.
    - ii. If service agreements are not used by CG&E for this rider, explain in detail why they are not.

**RESPONSE:**

- a. The Commission, by approving ULH&P's filed ED tariffs, would in essence be approving the material terms and conditions of any ED contracts. If the Commission believed that other customers were harmed, the Commission would have an opportunity to explore this in a rate proceeding, where any “harm” to other customers could be rectified in setting ULH&P's overall rates.
- b. ULH&P would agree with this statement.
- c. Please see attached Rider BR Service Agreement.

**WITNESS RESPONSIBLE:** Don Rottinghaus

**Service Agreement**

**Between**

**The Cincinnati Gas & Electric Company**

**and**

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This Agreement, entered into and effective this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, between The Cincinnati Gas & Electric Company (CG&E) and \_\_\_\_\_ (Customer),

**Witnesseth:**

WHEREAS, Customer is locating facilities in a qualified "brownfield" redevelopment area so designated by the Ohio Environmental Protection Agency; and

WHEREAS, Customer desires to take service under one of CG&E's non-residential tariff schedules; and

WHEREAS, Customer desires to have applied to CG&E's non-residential tariff schedules CG&E's Brownfield Redevelopment Rider (Rider BR); and

WHEREAS, CG&E desires to supply the electrical energy to satisfy Customer's load requirements;

THEREFORE, in consideration of providing and receiving service under a non-residential tariff schedule and Rider BR, the parties specifically agree as follows:

1. The Customer shall be provided service at a voltage of \_\_\_\_\_.
2. The Customer shall be charged for and shall pay for service at the rates specified in the applicable non-residential tariff schedule, discounted by the demand charge reduction specified in Rider BR.
3. The term of the contract shall be ten years from the date that this Agreement has been entered into, and shall not be renewable.
4. This Agreement is effective against Customer, its successors and assigns.
5. In the event that Customer, its successors or assigns terminate this Agreement prior to the expiration of this Agreement's term, Customer, its successors or assigns will thereafter be ineligible to take service under Rider BR at the location specified above.
6. To enable CG&E to report to the Public Utilities Commission of Ohio (Commission) as required by the Commission's Order in Case No. 98-585-EL-ATA, Customer shall provide to CG&E by June 30 and December 31 of each of the first five (5) years of this Agreement the number of jobs created by Customer as a result of its operations at the location specified above.
7. Should any change in the rates or discounts referenced herein be ordered by the Public Utilities Commission (Commission) of Ohio, payments by the Customer to CG&E for service as provided for

herein shall thereafter be made upon the basis of such new rates and discounts as changed and approved by the Commission.

8. The terms of this Agreement are subject to the terms of the applicable non-residential tariff schedule, Rider BR, CG&E's Electric Service Regulations on file with the Commission and all rules, regulations and orders of the Commission and other governmental bodies having jurisdiction over Rider BR. In the event of any official action by such governmental body which would require action by CG&E or the Customer inconsistent with one or more terms of this Agreement or unacceptable regulatory action as determined by CG&E, the parties may agree to waive or modify such term or terms; and if any agreement to waive or modify is not achieved within a reasonable time, either party may elect to terminate this Agreement upon written notice to the other.
9. To the extent of any conflict between the terms of this Agreement and the terms of any other agreement between CG&E and the Customer regarding the rendering of electric service, this Agreement shall prevail. The terms of such electric service agreement or agreements shall otherwise remain unaffected by this Agreement, and upon termination or expiration of this Agreement, this Agreement shall no longer prevail over any previously conflicting terms of such agreement or agreements.

10. This Agreement, including the service regulations, tariff schedules and riders referenced herein, constitutes the entire agreement of the parties with respect to the subject matter hereof, and all prior agreements and other communications concerning such subject matter are hereby merged into and superseded by this Agreement. No waiver or amendment of the terms of this Agreement shall be effective unless set forth in writing and signed by the authorized representatives of each party.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their authorized representatives as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

THE CINCINNATI GAS & ELECTRIC COMPANY

By: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_



**KyPSC Staff's Supplemental Data Requests**

**Case No. 2004-00253**

**Date Received: August 19, 2004**

**Response Due Date: September 1, 2004**

**KyPSC-DR-02-002**

**REQUEST:**

2. Refer to the response to Item 4 of the Commission Staff's First Data Request dated July 27, 2004.
  - a. Explain in detail how ULH&P would quantify the benefits to other customers and customer classes resulting from the capital expenditures, tax dollars and employment opportunities resulting from participating under the proposed riders.
  - b. Would ULH&P agree that, if it cannot quantify the benefits noted in response to Item 4, the concept of cost causation would require that the participant under the proposed rider should bear its implementation costs? Explain the response.

**RESPONSE:**

- a. The Company posits that the benefits to other customers from the implementation of its proposed EDR riders are an increased tax base, the development of blighted areas, under Rider BR the rehabilitation and re-use of previously toxic and unusable land, and the creation of jobs and secondary businesses. While difficult to quantify, these benefits no doubt inure to ULH&P's customers and the Commonwealth as a whole. The Company plans to track capital investment and job creation for each of the customers taking service under these riders. ULH&P will also be working with the Kentucky Development Board and state and local governments in identifying customers to whom these riders might apply. The Company intends that these riders be part of a package of incentives to be used to aid development and help to bring businesses to the Commonwealth.
- b. No. It is ULH&P's position that while the benefits to specific customers or customer classes are difficult to quantify, it would be difficult to argue that there are no benefits that flow to other customers or customer classes. Since benefits do flow to other ratepayers, it seems reasonable to socialize the costs across all rate payers. The Company proposes that the Commission treat the subject of recovery of the costs of the EDR program in ULH&P's next base rate case.

**WITNESS RESPONSIBLE:** Don Rottinghaus



**KyPSC Staff's Supplemental Data Requests**

**Case No. 2004-00253**

**Date Received: August 19, 2004**

**Response Due Date: September 1, 2004**

**KyPSC-DR-02-003**

**REQUEST:**

3. Refer to the response to Item 6 of the Commission Staff's First Data Request dated July 27, 2004.
  - a. Has the Indiana Commission approved the economic development riders proposed for PSI Energy, Inc.?
    - i. If yes, indicate when the riders were approved and describe any differences between the riders as proposed and as approved.
    - ii. If no, provide the status of the PSI Energy, Inc. application.
  - b. As of the date of this data response, has CG&E filed the Economic Development and Urban Redevelopment Riders with the Ohio Commission?
    - i. If yes, when were the applications filed and when does CG&E expect to receive a ruling from the Ohio Commission?
    - ii. If no, when are the applications expected to be filed?

**RESPONSE:**

- a. No, the Indiana Commission has not yet approved PSI's proposed EDR riders. A settlement hearing in the case is scheduled for September 29 with an evidentiary hearing set for December 2.
- b. No, CG&E is awaiting the outcome of several pending regulatory proceedings. The Company anticipates filing its EDR riders in the fourth quarter of this year.

**WITNESS RESPONSIBLE:**

Don Rottinghaus



**KyPSC Staff's Supplemental Data Requests**

**Case No. 2004-00253**

**Date Received: August 19, 2004**

**Response Due Date: September 1, 2004**

**KyPSC-DR-02-004**

**REQUEST:**

4. Concerning CG&E's Rider BR, provide the following information:
- a. A schedule showing the number of customers utilizing Rider BR as of the end of each calendar year since the rider was available.
  - b. The total benefits experienced annually by other CG&E customers and customer classes due to the availability of Rider BR.
  - c. The total annual cost incurred in association with implementing Rider BR for each calendar year since the rider was available.
  - d. Describe how implementation costs associated with Rider BR are currently recovered by CG&E.

**RESPONSE:**

- a. Only one customer has taken service under the provisions of Rider BR beginning in October 1999 and ending in September 2004.
- b. The availability of Rider BR along with state and local incentives have stimulated property development and business growth in the area with five (5) large businesses and a number of small businesses residing in an area that was formerly an abandoned manufacturing site. While not currently available, the increase in tax dollars and employment can be provided to the Commission.
- c. As noted in response to 4.a. above, CG&E has had only one customer take service under Rider BR. However, please see attached hard copy of City of Lockland, Ohio Incentive Program web page, highlighting CG&E's Brownfield Redevelopment Rider.
- d. CG&E currently is not recovering any of the Rider BR costs as it has not had a base rate case since 1992.

**WITNESS RESPONSIBLE:**

Don Rottinghaus

# Incentive Programs



Service Directory

Online  
Newsletter

Incentive  
Programs

Financing  
Programs

Map

Redevelopment Sites

Lockland History

2003 Water  
Consumer Report

Links

Contact Us

101 North Cooper Avenue  
Lockland, Ohio 45215  
(513) 761-1124

## Economic Development Incentive Programs available to Eligible Companies expanding within or locating to Lockland

### Cinergy Brownfield Redevelopment Utility Incentive

For customers locating on a former qualified brownfield site, Cinergy is providing a discounted tariff rate on demand charges as follows:

- 50% reduction on the demand charge for the first 12 month period.
- 40% reduction on the demand charge for the second 12 month period.
- 30% reduction on the demand charge for the third 12 month period.
- 20% reduction on the demand charge for the fourth 12 month period, and a 10% reduction for the fifth 12 month period.

Currently, the new Lockland Commerce Park is the only local qualified and cleaned brownfield site. For more information, contact the Village Administrator at Town Hall, or the Lockland Commerce Park at (513) 821-6466.

### Property Tax Exemption Programs

#### Enterprise Zone Program

The Hamilton County Commissioners, with the approval of Lockland Village Council, may grant tax incentives to non-retail enterprises that agree to establish, expand, renovate, or occupy a facility within Lockland's enterprise zone and hire new employees, or preserve employment for existing employees. The program exempts a percentage of the real and/or tangible personal property tax increases resulting from a development project. Investments that may be eligible include improvements to real property (buildings) and/or tangible personal property (machinery, equipment, furniture, fixtures or inventory). The amount of the tax exemption is negotiated on an individual basis and varies according to the size of the investment and the number of jobs created or retained. Additional incentives are available for substantial environmental remediation. An agreement must be in place before a project commences.

A second tier of incentives is available to manufacturers who are in compliance with an existing enterprise zone agreement and can document hiring 25% of their new employees from five defined categories. Upon application, the state may certify a business as eligible for this franchise tax credit for up to four consecutive years. Benefits include exemption of enterprise zone project assets from the company's asset-or income-based calculation; reduction of the payroll numerator for wages paid to the 25% "disadvantaged" new hires; and credits for daycare or training associated with these new hires.

### Environmental Cleanup

#### Ohio Voluntary Action Program

A state program provides incentives for people who voluntarily clean up property contaminated by hazardous substances and petroleum. Incentives include low interest loans for clean up costs and a 10- year tax exemption on the increase in real property value resulting from voluntary action. The Village may exempt

development projects that participate in this program from increases in property taxes for up to 10 years.

**Tax Credit Programs**

*Manufacturing and Machinery Investment Tax Credit*

In Lockland, Manufacturers may receive a credit toward their corporate franchise or state income tax equal to 13.5% of their investment in new, or re-tooled machinery and equipment that is located in Ohio and used for manufacturing. The new investment must exceed the company's average capital investment in the country for the past three years.

*Job Creation Tax Credit*

Companies creating at least 25 new jobs in Ohio within a 3 year period are eligible for a refundable tax credit against corporate franchise taxes. A percentage of state income taxes paid by new employees can be credited against business taxes for up to 10 years. Eligible projects include manufacturing, high tech, distribution, certain service companies, and telecommunications operations. Application must be made before committing to the project.

*Export Tax Credits*

Ohio provides up to 10% credit on pre-tax profit resulting from companies or individuals who increase their export sales, and in so doing, increase either Ohio payroll or Ohio capital expenditures.

**Job Training Programs**

*Ohio Industrial Training Program*

This state program provides financial assistance and resources for customized employee training to manufacturers and other large employers who will be retaining or expanding job opportunities through capital investments. The funding is on a reimbursement basis and will cover such things as instructor costs, materials, and other special needs.

**Equipment Sales Tax Exemption Programs**

*Research and Development Equipment Sales Tax Exemption*

State and county sales tax is exempt on purchases of machinery and equipment used primarily for research and development. The exemption covers equipment used to design, create, or formulate new or enhanced products, equipment, or manufacturing processes; or for scientific or technical inquiry and experimentation in the physical sciences. The exemption is claimed at the time of purchase.

*Warehouse Equipment Sales Tax Exemption*

Companies are exempt from state sales tax for equipment used in storing, transporting, mailing or handling inventory distributed to retail stores outside Ohio that are owned by the business or its affiliated groups, or for inventory distributed by direct marketing.

**Warehouse Tax Exemption Program**

**Warehouse Inventory Tax Exemption Program**

To encourage warehouse and distribution centers, the State is reducing property taxes on all products shipped into Ohio, held for storage only (no value added), and shipped to any destination outside of Ohio. This inventory tax exemption is being phased in over 5 years. Previously at 25%, the rate is expected to reach 0% by 1998.

<b>Federal, State and Local Financing Programs</b>	
<i>Fixed Asset Financing</i>	
<b>Industrial Development Revenue Bonds Use of Funds:</b>	Land, Building, Machinery and Equipment
<b>Eligible Borrowers:</b>	Manufacturers
<b>Maximum Loan:</b>	Up to 100% of project costs up to \$10 million
<b>Rate:</b>	Based on borrower's credit or bank letter of credit
<b>Term:</b>	Up to 25 years
<b>Bank Participation:</b>	Letter of credit may be required
<b>Other Requirements:</b>	Must show repayment and management capabilities; must be able to document job creation or retention; Ohio prevailing wage rate applies.
<b>Issued by:</b>	Village of Lockland Community Improvement Corporation (513) 761-1124
<i>SBA 504</i>	
<b>Use of Funds</b>	Fixed assets (land, building, and fixed equipment)
<b>Eligible Borrowers</b>	Most existing businesses; net worth less than \$6 million, or after tax 2-year net profit average under \$2 million
<b>Maximum Loan</b>	40% of project cost up to \$750,000 (\$1 million in some cases); \$35,000 SBA funding per job
<b>Minimum Loan</b>	\$50,000 (project minimum \$120,000)
<b>Loan Term</b>	10 years for equipment; 20 years for real estate
<b>Rate</b>	5 or 10 years treasury bonds + 1.5% (including fees)
<b>Bank Participation</b>	Typically 50% of project cost
<b>Equity</b>	At least 10% of project cost
<b>Fees</b>	\$200 application; \$1,500 - \$3,500 out-

	of-pocket + 2.88% processing fee funded as part of the loan
<b>Administered by</b>	Hamilton County Development Co., Inc. (513) 632-8292
<i>Ohio 166 Regional Loan Program</i>	
<b>Use of Funds</b>	Land, Building, Machinery and Equipment
<b>Eligible Borrowers</b>	Primarily existing manufacturing businesses
<b>Maximum Loan</b>	40% of eligible fixed costs up to \$200,000; 30% above \$200,000 to \$1 million maximum; \$15,000 of state funding per job
<b>Loan Term</b>	10 years on real estate; up to 7 years on machinery and equipment
<b>Rate</b>	2/3 of prime; fixed
<b>Bank Participation</b>	At least matches state participation
<b>Equity</b>	At least 10% of project cost
<b>Other Requirements</b>	Prevailing wage applies
<b>Administered by</b>	Up to \$350,000 - Hamilton County Development Co, Inc. Over \$350,000 = Ohio Department of Development (513) 632-8292

<b>Working Capital Financing</b>	
<i>SBA Microloan Program</i>	
<b>Use of Funds</b>	Working capital (inventory, receivables, operating costs)
<b>Eligible Borrowers</b>	New and existing businesses
<b>Loan Amount</b>	\$1,500 - \$15,000
<b>Rate</b>	1.5 - 13.5%
<b>Term</b>	Usually 3 years or less; maximum 6 years
<b>Equity</b>	10% or more
<b>Bank Participation</b>	Not required
<b>Other Requirements</b>	Must show repayment and management capabilities
<b>Administered by</b>	Hamilton County Development Co., Inc. (513) 632-8292

<b>Loan Guarantee Program</b>	
<i>SBA 7(a) Loan Guarantee</i>	
<b>Use of Funds</b>	Working capital or fixed assets
<b>Eligible Borrowers</b>	Most small businesses
<b>Maximum Loan</b>	Currently \$500,000
<b>Guarantee</b>	90%
<b>Loan Term</b>	Bank's term
<b>Rate</b>	Bank's rate
<b>Bank Financing</b>	Bank provides financing with SBA guarantee
<b>Equity</b>	10 - 30%
<b>Administered by</b>	Hamilton County Development Co., Inc., SBA or local lender

<b>Export Financing Guarantee Programs</b>	
<i>SBA Export Working Capital Program</i>	
<b>Use of Funds</b>	Inventory, goods, services, manufacturing costs, or to support standby letter of credit
<b>Eligible Borrower</b>	Small business with at least 1 year history, domiciled in U.S.
<b>Maximum Loan</b>	\$833,000
<b>Percentage of Guarantee</b>	90% of loan amount (\$750,000)
<b>Loan Term</b>	Up to one year
<b>Rate</b>	Negotiable between borrower and lender
<b>Type</b>	Transaction-based; single or multiple export transactions (revolving)
<b>Restrictions</b>	At least 50% U.S. content
<b>Administered by</b>	Hamilton County Development Co, Inc./International Trade Assistance Center (513) 632-8292
<i>EX-IM Bank</i>	
<b>Use of Funds</b>	Inventory, goods, services, manufacturing costs, or to support standby letter of credit
<b>Eligible Borrower</b>	Sole proprietor, partnerships,

	corporations, at least 1-year history, domiciled in U.S.
<b>Maximum loan</b>	No limit
<b>Percentage of Guarantee</b>	90% of loan amount
<b>Loan Term</b>	Up to one year
<b>Rate</b>	Negotiable between borrower and lender
<b>Type</b>	Transaction-based; single or multiple export transactions (revolving)
<b>Restrictions</b>	No defense products or services. Only U.S. content
<b>Administered by</b>	Ex-Im Bank 1-800-565-3946

  
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